Northern Property

Real Estate Investment Trust

Exceeding Expectations in the North

2002 ANNUAL REPORT

Northern Property REIT (NPR) is an unincorporated open-end real estate investment trust that invests in a portfolio of mainly residential income-producing properties located in the Northwest Territories, Nunavut and northern Alberta, much of which is leased to government and large corporations to meet staff housing needs. NPR also invests in commercial premises in Northern Canada leased to government and corporate interests.

NPR units trade on the Toronto Stock Exchange under the symbol NPR.UN

Units of Northern Property REIT

out-performed all other REITS in 2002

ANNUAL GENERAL MEETING

The Annual General Meeting of Unitholders will be held on Wednesday, June 11 at 3:00 pm at the Hyatt Regency Hotel in Calgary, Alberta.

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HIGHLIGHTS

	2002
Operating revenues (000s)	$19,288
Net operating income (NOI) (000s)	$13,124
NOI Margin (%)	68.0%
Net earnings (000s)	$5,733
Net earnings per Unit	$0.57
Weighted average units	10,140,677
Distributable income (000s)	$7,569
Distributable income per Unit	$0.746
Distributions per Unit	$0.677
Payout ratio	90.9%
Weighted average units	10,158,093
Number of suites at December 31, 2002	1,864
Total commercial square feet at December 31, 2002	284,221

Forward Looking Statements

This annual report contains forward looking statements that involve risks and uncertainties. These forward looking statements are based on the Trust's current expectations and assumptions in light of its experience and perception of trends in our markets and in our industry generally. The statements are not guarantees of future performance.

Northern Property was the best performing REIT in 2002, increasing in unit price from $10.00 to $11.99 while delivering distributions from inception to December 2002 of $0.6769 per unit for an aggregate return of 27%.

DEAR FELLOW UNITHOLDERS,

I am pleased to provide you with these comments in the first Annual Report for Northern Property Real Estate Investment Trust.

A bit of history...

Northern Property REIT came into existence May 30th, 2002 upon the reorganization of Urbco Inc. Since 1968, Urbco Inc. had been actively engaged in the rental markets in northern Canada. Through a series of mergers and acquisitions late in the 1990's the company became the largest private landlord in the Northwest Territories and Nunavut.

The success of the Urbco business model unfortunately was accompanied by very little recognition in the market evaluation of its stock price. For many years the company traded well below its net asset value. In 2002, the difference between the value of the company and its stock market valuation became so profound that Urbco's Board of Directors took a bold decision: transfer its construction and development businesses to a newly created NewNorth Projects Ltd. and create a Real Estate Investment Trust, Northern Property REIT, to acquire and hold its rental properties.

Urbco shareholders recognized the outstanding quality of the northern rental portfolio and exchanged their rental property interests for units and some cash. Underwriters were engaged and a successful Initial Public Offering of $70 million of new capital accompanied the launch of the REIT.

Northern Property REIT used the proceeds of its offering to acquire Urbco Inc. and several Urbco properties directly.

Northgate Townhouses, Grande Prairie, Alberta


Parkview, Fort McMurray, Alberta

Our first few months....

While much of the planning associated with the operation of the Trust had taken place prior to the reorganization, its implementation was very intense for management and Trustees alike. The existence of stationery, business cards, business licenses, bank operating lines, computer networks, and management and governance routines is largely taken for granted. Re-creating new systems to handle our long established property business in a new structure with many additional equity holders involved a huge cost both in human resources and cash. Once this necessary work was carried out, we were determined that it would not be at the expense of our initial business year.

In the months following May 30th, Northern Property used some of its offering proceeds to enter the tight residential rental markets in three new communities. Inuvik, NWT is the focal point of the northern natural gas industry and has long been a regional government centre. Northern Property's acquisition of an apartment building there signals an on-going interest in property in that area. Our acquisition of 99 units in Grande Prairie and 135 units in Fort McMurray are initial investments in the dynamic economies present in Northern Alberta.

On November 1st, Northern Property closed on 26 buildings in the City of Iqaluit, capital of the Nunavut Territory. This $37.7 million "in market" acquisition closely mirrors the mix of government and corporate leases on residential buildings which is the foundation of the Northern Property business. We were delighted by the vendor's request to take $10 million in units as part of the consideration, a huge vote of confidence in both the real estate being vended and in the Trust itself.

This accretive activity was not unnoticed by our unitholders and the public markets. Northern Property was the best performing REIT in 2002, increasing in unit price from $10.00 to $11.99 while delivering distributions from inception to December 2002 of $0.6769 per unit for an aggregate return of 27%.

Northern Property's initial forays into the mid sized cities of northern Alberta have also confirmed that higher yield yet durable income opportunities exist in the real estate sector in key markets south of the 60th parallel.

The economic environment and our business model...

It is well known to the Trustees and management of Northern Property that an enormous economic engine is springing to life in Northern Canada. A surging oil and gas industry, the evolution of Canada as a world class diamond producer, a renewed lustre associated with gold and the ongoing presence of "big" government have provided the north with an enviable combination of growth and stability.

Notwithstanding this economic activity and the fact that much of our property is head leased by government and corporate interests on a multi-year basis as staff housing, Northern Property's rental portfolio features double digit capitalization rates. Coupled with low cost CMHC insured debt financing, this produces salutary results for unitholders.

There continue to be significant barriers to large-scale competition entering the rental housing business in our markets. Major logistic challenges to developers are present and there is a shortage of developed land. Acquiring efficient critical mass in smaller northern markets would be difficult for major new entrants. Moreover, the "home ownership competition" which other residential landlords experience is much less a factor in the markets in which Northern Property operates, where tenants often do not possess home ownership aspirations.

Governor Apartments, Iqaluit, Nunavut

Stoneridge Townhouses, Iqaluit, Nunavut

Noble House, Iqaluit, Nunavut.

Lanky Court, Yellowknife, NWT

Joamie Ridge, Iqaluit, Nunavut.

The road ahead...

Having enjoyed a very promising beginning, Northern Property REIT looks with enthusiasm on developing the business in the years ahead.

It is our view that the northern economy will continue to present opportunities to unitholders. Our markets in Nunavut and the Northwest Territories offer acquisition opportunities, but many of these are individual buildings rather than multi-building portfolios. The Development and Services Agreement with NewNorth Projects Ltd. provides us with the ability to acquire each of NewNorth's rental developments after they are completed and stabilized. This arrangement with NewNorth is considered to be a key element in our strategy of acquiring accretive rental assets in northern housing markets.

NewNorth has also launched a promising initiative in Nuuk, the capital of Greenland. It is our hope that in the years ahead we will be in a position to acquire a "staff housing" pool there, once again featuring government covenants.

Northern Property's initial forays into the mid sized cities of northern Alberta have also confirmed that higher yield yet durable income opportunities exist in the real estate sector in key markets south of the 60th parallel. Healthy rental residential markets are by no means exclusive to Canada's large metropolitan areas.

On behalf of the Board of Trustees and our entire Northern Property team, I would like to thank our unitholders for the tremendous support you have provided in our launch year. You may be assured of our complete attention to maintaining, indeed strengthening, the durability of the REIT's income and to continuing our systematic approach to enhancing unitholder value.

B. Britton

B. James Britton
President & CEO

April 21, 2003

Niven Lake Apartments, Yellowknife, NWT

Leaseback town home units, Pangnirtung, Nunavut

Six-plex townhomes Iqaluit, Nunavut

Parkview Apartments, Fort McMurray, Alberta

NORTHERN PROPERTY REIT, PROPERTY PORTFOLIOS: AS AT APRIL 21, 2003

- **1,913 RESIDENTIAL UNITS AND EXECUTIVE SUITES**
- **297,178 SQ.FT. LEASEABLE COMMERCIAL SPACE**

	No. of Residential Rental Units	% Total Residential Portfolio	No. of Executive Suites	% Total Executive Suites	Leaseable Commercial Space - Sq.Ft.	% Total Commercial Portfolio
Alberta						
Calgary	–	0%			33,000	11%
Fort McMurray	135	7%				
Grande Prairie	99	5%				
Okotoks	–	0%			12,000	4%
Red Deer	60	3%				
Alberta Totals	294	16%	–		45,000	15%
Northwest Territories						
Yellowknife	735	40%	44	53%	129,967	44%
Inuvik	45	2%				
Sachs Harbour	2	0.1%				
Northwest Territories Totals	782	43%	44	53%	129,967	44%
Nunavut						
Iqaluit	594	32%	39	47%	122,211	41%
Arctic Bay	7	0.4%				
Cape Dorset	25	1%				
Clyde River	10	1%				
Gjoa Haven	7	0.4%				
Hall Beach	7	0.4%				
Igloolik	25	1%				
Kimmirut	4	0.2%				
Pangnirtung	43	2%				
Pond Inlet	23	1%				
Taloyak	9	0%				
Nunavut Totals	754	41%	39	47%	122,211	41%
Total	**1,830**		**83**		**297,178**	

Executive Suites are furnished apartments, with housekeeping, available for short and mid term rentals

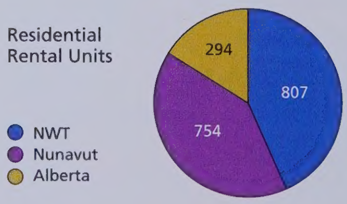
Management's discussion and analysis of financial conditions and results of operations should be read in conjunction with the audited consolidated financial statements for the seven months ended December 31, 2002 and the Prospectus dated May 17, 2002.

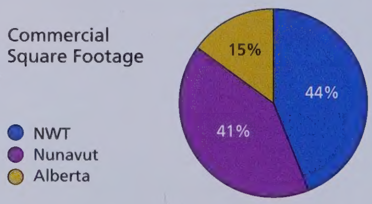
OVERVIEW

Northern Property Real Estate Investment Trust ("NPREIT") is a growth-oriented investment trust owning multi-unit residential properties and commercial space in Canada's north. NPREIT's unique portfolio provides a blend of long-term residential and commercial leases with governments and corporate tenants with conventional short-term leases to individuals. This provides our unitholders with a stability of income and distributions.

Northern Property Real Estate Investment Trust's first seven months of operations has seen the trust grow in size from $167.8 million of capital assets at May 30, 2002 to $252.0 million at December 31, 2002, an increase of 50%. During this period, the trust diversified its operations by adding residential units in Grande Prairie, Alberta while continuing to acquire properties in our proven market of Iqaluit, Nunavut. Since completing the Initial Public Offering ("IPO"), NPREIT has acquired an additional 28 buildings bringing our total portfolio at December 31 to:

- 807 residential units and 117,010 square feet of commercial space in the Northwest Territories;
- 294 residential units in northern Alberta;
- 763 residential units and 122,211 square feet of commercial space in Nunavut; and
- 2 commercial buildings (45,000 square feet) in southern Alberta.





Total holdings at December 31 were 1,864 residential rental units and 284,221 square feet of commercial space.

The impact of these additions is reflected in NPREIT's total revenues of $17.0 million for the six month reporting period ended December 31, 2002. These revenues were $1.1 million higher than projected (+7.1%) primarily due to the acquisitions. Rental operating costs held constant at 32% of rental revenue. Distributable income for the six month period exceeded projections by 6.6% at $0.65 per unit versus $0.61 as reported in the Initial Public Offering prospectus dated May 17, 2002.

INITIAL PUBLIC OFFERING

The foundation for NPREIT was 1,151 units and 202,060 square feet of commercial space in 88 buildings owned by Urbco Inc. On May 30, 2002, NPREIT purchased 10 properties from Urbco Inc. and acquired 100% control of Urbco Inc. and its subsidiaries through a reorganization. Cash totalling $23.5 million, 2,391,441 Northern Property Limited Partnership units and 533,280 REIT units were paid to Urbco Inc. and its shareholders. The funds for the acquisition were raised through the successful completion of a $70,000,000 Initial Public Offering ("IPO"). Issuance costs for the offering totalled $7.5 million.

Frobisher House, Yellowknife, NWT

Crystal Ridge, Iqaluit, Nunavut

Following the closing of the offering, nine properties consisting of 410 residential rental units and 47,798 square feet of commercial space were purchased from third-party vendors for cash totalling $25.1 million cash plus the assumption of $13.8 of debt. Eight of the properties were acquired June 1 and the remaining property was acquired on August 1. A total of $9.7 million was used to pay down debt and to pay out equity land leases that bore interest at rates between 10% and 11.25%.

Upon completion of the transactions contemplated in the IPO, NPREIT had a rental portfolio of 1,562 residential units and 249,858 square feet of commercial space in 97 buildings totalling $206.8 million in assets.

ACQUISITIONS

Management of NPREIT has continued to identify and acquire accretive properties throughout the north and has successfully completed five transactions in addition to those planned during the offering:

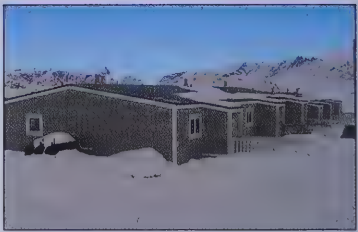
1. The acquisition of 64 residential units in Grande Prairie, Alberta for $5.1 million on August 1, 2002. The $5.1 million purchase price was satisfied through the assumption of $3.1 million of debt and a cash payment of $2.0 million. The units are new, and fully occupied in a market enjoying near zero vacancy.

2. NPREIT completed the purchase of 204 residential units and 34,363 square feet of commercial space in Iqaluit for $37.7 million. This transaction added another portfolio of properties of which the majority are leased to the Government of Nunavut and the Government of Canada, further strengthening our revenue stream with long term leases to major tenants. The $37.7 million purchase price was satisfied through the assumption of $16.5 million of debt, a cash payment of $11.2 million, and the issuance of 862,813 Northern Property Limited Partnership units (at $11.59 per unit).

3. The acquisition of 35 residential units in Grande Prairie, Alberta for $2.9 million on November 1, 2002. The $2.9 million purchase price was satisfied through the assumption of $1.7 million of debt and a cash payment of $1.2 million. Construction of the units was completed in October, 2002 by the vendor.

Bowling Green Building,
Yellowknife, NWT

Crestview Apartments, Yellowknife, NWT



Leasebacks, Pangnirtung, Nunavut

The fourth and fifth transactions were completed subsequent to year end:

4. During the quarter, NPREIT provided mezzanine financing of $2.5 million to NewNorth Projects Ltd. ("NewNorth") under the terms of a Development and Services Agreement. The financing bears interest at 11% per annum and has been used to develop 30 townhouse units in Nunavut for lease to the Government of Nunavut for a twenty year period. NPREIT purchased the units from NewNorth on February 28, 2003. The $6.6 million purchase price was satisfied through the assumption of $1.8 million of construction debt, a cash payment of $2.2 million, and settlement of the $2.6 million mezzanine facility (including accrued interest).

5. On January 1, 2003, NPREIT acquired a mixed-use building in Yellowknife for $3.4 million. The multi-storey building has 19 apartment units and 12,957 square feet of commercial space. The $3.4 million purchase price was satisfied through the assumption of $1.7 million of debt, a cash payment of $.5 million, and the issuance of 93,478 Northern Property Limited Partnership units (at $12.06 per unit).

RESULTS OF OPERATIONS

($ thousands)	*3 Months Ended September 30, 2002*	*6 Months Ended December 31, 2002*	*Inception May 30, 2002 to December 31, 2002*
Operating revenues	$ 7,748	$ 16,715	$ 19,288
Operating expenses	2,400	5,376	6,164
Net operating income ("NOI")	5,348	11,339	13,124
NOI Margin	69.0%	67.8%	68.0%

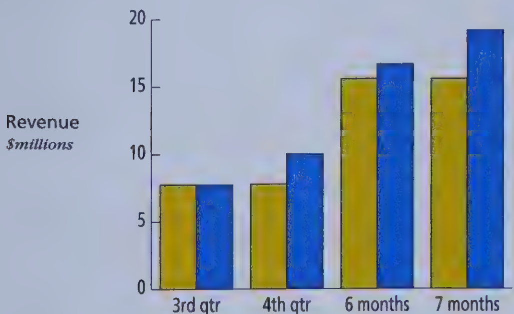
Revenue

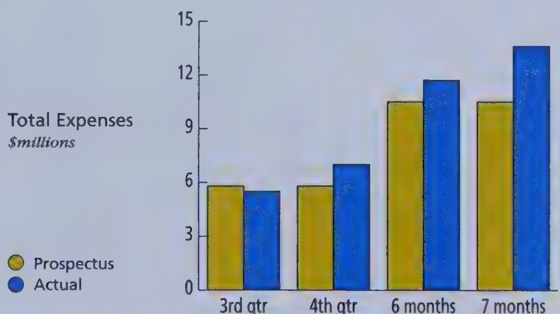
NPREIT's rental portfolio generated revenues totalling $19.3 million from inception to December 31, 2002. The continuing strength in the Yellowknife market and the completion of a renovation program at a townhouse property resulted in modest rental increases in late 2002 (0.87% of residential rental revenue for the Yellowknife portfolio). The combination of the rental increases and the acquisitions completed by management resulted in operating revenues for the six-month period ended December 31 exceeding forecast by 5.3%.

The rental portfolio in the trust continues to be a blend of long-term leases to governments and corporations (60.5%), and shorter term leases to individuals (39.5%). The majority of the units acquired on November 1, 2002 are leased to the Government of Nunavut or Government of Canada, bringing the total revenue received from NPREIT's five major tenants to 55.9% of rental revenue as compared to 52.2% in the forecast. Residential lease expiries range from 2003 to 2014 (15.89% and 9.8% of revenue respectively).

With over 60% of NPREIT's rental revenue coming from tenants with long term leases, the trust's exposure to vacancy risk is largely limited to the 39.5% of units leased to individuals. During the seven month period, Nunavut experienced virtually no vacancy (.005%) and Yellowknife had a vacancy of 0.8%. A portion of the vacancy in Yellowknife is the result of units held off the market for renovation or refurbishing purposes. Capital improvements were undertaken and completed in 24 units which enhanced the value of the units and provided opportunities for further returns as they were re-leased.

Late in 2002 NPREIT experienced a temporary spike in vacancy rates in Alberta. The Fort McMurray market and to a lesser degree Grande Prairie residential rental demand temporarily stalled when the Kyoto Accord was announced by Ottawa, resulting in vacancies of 16% and 17% respectively in late 2002. The impact of the Accord has now been absorbed by the energy industry and the markets have returned to their pre-Kyoto vacancy rates of 3 to 4%. Currently only 2 of the 123 units available for rent in Fort McMurray are vacant and 11 units are vacant in Grande Prairie. Twelve units in Fort McMurray have been held off the market for renovations.





Expenses

The operating costs associated with the acquisitions completed since the IPO combined with higher than anticipated trust expenses is reflected in the increase of $897,899 or 8.28% over the total expenses anticipated in the forecast. Total expenses for the six month period were $11.7 million and from inception to December 31 were $13.6 million.

a) Operating costs

Seasonal considerations and the operating costs associated with the recently acquired Iqaluit properties is reflected in the higher costs during the 3 months ended December 31, 2002

Sivulliik, Yellowknife, NWT

The Capital Suites, interior and exterior, Iqaluit, Nunavut

The Gardens Execusuites, Yellowknife, NWT

than in the summer period ended September 30, 2002, though overall operating costs for the 7 months ended December 31 held steady at 32% of operating revenue.

b) ***Interest on financing***

Interest expense for the three-month period ended December 31, 2002 was $209,443 or 10.89% higher than projected due to the borrowings associated with acquiring the Iqaluit properties. A total of $5.9 million of debt was repaid with proceeds from the initial public offering. Interim loan facilities totalling $3.8 million were repaid during the six month period and four mortgages were refinanced at rates up to 200 basis points below the rate used for the projections.

c) ***Amortization and depreciation***

Actual amortization of capital assets and capital maintenance was $14,475 or 2.52% less than projections for the 3 months ended December 31, 2002 due to a correction in the amortization of the increase between book value of the capital assets and fair market value of the assets acquired by NPREIT. Amortization for the 6-month period ended December 31, 2002 was $23,387 or 2.04% higher than projected due to amortization of other assets (vehicles, computers, etc.) purchased during the current year but not contemplated in the prospectus.

d) ***Trust administration costs***

Administration costs for the trust were $517,621 higher than projected for the 3 month period ended December 31, 2002.

The variance in total salary expense of $271,000 is partly attributable to the adoption of the Long Term Incentive Policy discussed in the prospectus. This has been expensed to the current period, however, the incentive takes the form of rights to units which vest in 12, 24 and 36 months. In addition $131,000 of one time cash bonuses were awarded to senior managers in consequence of negotiating accretive acquisitions during the period which were not planned. The volume of managerial work associated with the growth of the Trust has resulted in a further $18,000 of salary expense.

Legal fees associated with the security for the operating facility and registration of same plus various agreements required in day-to-day operations exceeded the allowance in the forecast

by $277,000. These are one-time costs that will not recur in fiscal 2003.

Trustee fees and the cost for trustee meetings exceeded budgeted costs by $92,000.

The total of these variances of $640,000 were offset by cost savings in various other costs, such as public reporting costs ($49,000), resulting in a net overage in administration costs of $483,466 for the six-month period ended December 31, 2002.

DISTRIBUTABLE INCOME AND CASHFLOW

The net effect of the overall growth in revenues while maintaining stable operating ratios resulted in distributable income exceeding the forecast by $567,000 or 9.4% for the six month period ended December 31, 2002.

NPREIT forecast a distribution ratio of 90% in the prospectus based on the issuance of 9,525,000 units. Through growth and careful property management of the portfolio, NPREIT achieved a distribution ratio of 90.9% during its first seven months of operations. This was achieved notwithstanding the issuance of 400,000 units by the underwriters pursuant to the over-allotment provisions.

The total effect of the acquisitions in late 2002 will be reflected in distributable income in fiscal 2003. One of NPREIT's primary goals is to retain more distributable income in 2003 and future years to meet its growth objectives while maintaining a balanced growth in distributions to unitholders. An increase in cash retained by the trust will provide the capital resources required to ensure that the rental portfolio is kept in top condition.

Inception

($ thousands except per unit amounts)	*3 Months Ended September 30, 2002*	*6 Months Ended December 31, 2002*	*May 30, 2002 to December 31, 2002*
Net income	$ 2,632	$ 5,031	$ 5,733
Add amortization	611	1,171	1,453
Add future income taxes	38	160	173
Add long-term incentive plan expenses	–	210	210
Distributable income (DI) and cash flow	$ 3,281	$ 6,572	$ 7,569
DI per Unit	$ 0.330	$ 0.648	$ 0.746
Distributions to Unitholders	$ 2,852	$ 5,869	$ 6,883
Distributions per Unit	$ 0.287	$ 0.574	$ 0.677
Payout Ratio (Distributions to Unitholders / DI)	86.9%	89.3%	90.9%
Weighted average units outstanding - basic and diluted	9,873,096	10,158,093	10,158,093

LIQUIDITY AND CAPITAL RESOURCES

It is the objective of NPREIT over time to be conservatively levered at 60% of Gross Book Value. The Trust Indenture permits leverage up to 70% including our acquisition and operating line. At December 31, 2002, NPREIT's debt to Gross Book Value was 59.09% compared to 51.9% in the prospectus. The weighted average interest rate is 6.62%

Long-term debt increased during the quarter from $107.0 million at September 30, 2002 to $127.9 million at December 31, 2002 due to:

1. debt of $16.5 million assumed on acquisition of the Iqaluit portfolio. The weighted average interest rate on this debt is 6.97% and the maturities range from July, 2003 to November, 2011.
2. debt of $1.7 assumed on acquisition of the 34 units in Grande Prairie. The interest rate on this debt is 5.19% and the maturity is September, 2007.
3. mortgage of $4.1 million on the Lakeside townhomes in Yellowknife. The interest rate on this debt is 5.81% and the maturity is November, 2007.
4. less principal repayments of $1.4 million during the quarter.

Management completed negotiations and implementation of a $20 million acquisitions and operating facility. The facility bears interest at prime plus 1/2% and can be increased to $30 million at the request of management. A total of $13.8 million of the facility had been utilized at the end of the December, 2002.

UNITHOLDERS' EQUITY

At December 31, 2002 total unitholders' equity was $100.6 million reflecting the following activity:

1. Issuance of a total of 9,924,709 Trust and Limited Partnership units in connection with Initial Public Offering less issuance costs of approximately $7.5 million.
2. Issuance of 862,813 Northern Property Limited Partnership units at $11.59 per unit in November as part of the consideration for the purchase of the Iqaluit portfolio.
3. Recognition of $5.7 million net income from May 30, 2002 to December 31, 2002.
4. Payment of distributions $6.9 million to unitholders.

MARKET OVERVIEW

With the majority of Northern Property REIT's properties located in the Northwest Territories and Nunavut, the continued improvement of these economies has benefited the housing markets. In the Northwest Territories the GDP grew by 19.2% from 2000 to 2001 and Nunavut's GDP grew by 7.7% in the same period. Though these levels are not expected to be sustainable, the economies will continue to grow.

Crosswinds, Iqaluit, Nunavut

Iqaluit House, Iqaluit, Nunavut

Paunna Place, Iqaluit, Nunavut

In Yellowknife, the apartment vacancy rates continued to decline from 2001 levels, dropping from 1.0% to 0.3% as at October 2002 according to Canada Mortgage and Housing Corporation reports. The dropping vacancy levels have allowed landlords to increase again rent levels by an average of 4.6% from 2001 to 2002. This follows a 7.8% increase from 2000 to 2001.

In Iqaluit, the apartment vacancy rates continue to remain very tight. The last survey completed by CMHC was in 2000 and vacancy was at 1.3% and even with additional units being brought into the market since that time, vacancy rates have remained well below the balanced market conditions in favour of landlords.

RISK MANAGEMENT

Northern Property Real Estate Investment Trust operates under a strict set of guidelines as set out in its Trust Declaration. The Trust Declaration covers such areas as the maximum leverage allowed, investment restrictions, management authorities, and environmental risks.

Interest Rate Risk

NPREIT ensures that interest rate risk is minimized by staggering its debt maturities over a number of years, taking advantage of "blend and extend" opportunities as they arise to take advantage of the low interest rate environment that currently exists, and through CMHC underwriting on buildings to reduce interest rates. Currently, NPREIT has $11.0 million of debt renewing in 2003. The weighted-average interest rate on the debt expiring in 2003 is 6.11%.

Environmental Risk

Prior to any property acquisition, management is required to complete a Phase 1 environmental audit on the property and provide the results of the audit to the Board of Trustees as part of the purchase approval process.

FUTURE OUTLOOK

Management believes that an important part of NPREIT's growth will be achieved through the acquisition and development of residential and commercial rental properties in northern Canada. A strong rental market, careful management of operating costs and new acquisitions provide on-going opportunities for the Unitholders of Northern Property Real Estate Investment Trust.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and information included in this Annual Report have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public and Private Real Estate Companies. The Management of the Trust is responsible for their integrity and objectivity. To fulfill this responsibility, the Trust maintains appropriate systems of internal control, policies and procedures to ensure that it's reporting practices and accounting and administrative procedures are of high quality. The financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Deloitte & Touche LLP, the auditors appointed by the unitholders, have examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the consolidated financial statements. Their report as auditors is set forth herein.

The consolidated financial statements have been further reviewed and approved by the Board of Trustees and its Audit Committee. The Audit Committee, which is comprised of three trustees who are not officers of the Trust, reports to the Board of Trustees. The auditors have direct and full access to the Audit Committee.

B. James Britton
President and Chief Executive Officer

Debra A. Boyle
Chief Financial Officer

AUDITORS' REPORT

To the Unitholders'

Northern Property Real Estate Investment Trust

We have audited the consolidated balance sheets of Northern Property Real Estate Investment Trust ("NPREIT") at December 31, 2002 and the consolidated statements of earnings, unitholders' equity and cash flows for the period then ended. These financial statements are the responsibility of NPREIT's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of NPREIT as at December 31, 2002 and the results of its operations and cash flows from inception on May 30, 2002 to December 31, 2002 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta

March 7, 2003

CONSOLIDATED BALANCE SHEET

December 31, 2002

(Thousands of dollars)	$
ASSETS	
Rental properties and other capital assets (Note 4)	**252,038**
Loan receivable (Note 12)	**2,627**
Prepaid expenses and other assets (Note 5)	**4,173**
Accounts receivable	**2,798**
Tenant security deposits	**595**
	262,231
LIABILITIES	
Mortgages payable (Note 6)	**127,905**
Accounts payable and accrued liabilities (Note 8)	**4,826**
Distributions payable	**1,034**
Long-term incentive plan obligation	**210**
Income taxes payable	**1,555**
Future income taxes liability (Note 9)	**12,323**
Bank indebtedness (Note 7)	**13,758**
	161,611
UNITHOLDERS' EQUITY	**100,620**
	262,231

Approved by the Board

B. James Britton
Trustee

Donald G. Reid
Trustee

CONSOLIDATED STATEMENT OF EARNINGS

Period From Date of Inception May 30, 2002 to December 31, 2002

(Columnar amounts expressed in thousands of dollars, except for per unit amounts)	$
REVENUE	
Rental properties revenue	19,288
Rental properties operating expenses	(6,164)
Net operating income	13,124
EXPENSES	
Interest on mortgages	4,378
Interest on operating facility	159
Amortization	1,453
	5,990
INCOME FROM OPERATIONS	7,134
OTHER ITEMS	
Interest and other income	323
Trust administration costs	(1,457)
	(1,134)
EARNINGS BEFORE INCOME TAXES	6,000
INCOME TAXES (Note 9)	
Current	94
Future	173
	267
NET EARNINGS	5,733
Per unit net earnings	
Basic and diluted (Note 11)	0.57

CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

December 31, 2002

(Thousands of dollars)	$
Unitholders' equity opening balance on May 30, 2002	–
Issue of units (Note 10)	109,247
Issue costs	(7,477)
Unitholders' unit equity	101,770
Net earnings	5,733
Equity distributions on units (Note 11)	(6,883)
Accumulated deficit	(1,150)
Unitholders' equity at December 31, 2002	100,620

CONSOLIDATED STATEMENT OF CASH FLOWS

Period From Date of Inception May 30, 2002 to December 31, 2002

(Thousands of dollars)	$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:	
OPERATING	
Net earnings	5,733
Adjustments for:	
Amortization	1,453
Future income taxes	173
Long-term incentive plan	210
Funds from operations	7,569
Changes in non-cash working capital	(6,550)
	1,019
FINANCING	
Proceeds received from initial public offering of units (net of issue costs)	62,523
Proceeds of mortgages	4,096
Repayment of mortgages and interim facilities	(12,584)
Distributions to unitholders	(5,849)
	48,186
INVESTING	
Acquisition of assets in initial public offering (net of debt assumed)	(22,163)
Acquisition of properties	(39,407)
Building improvements	(1,393)
	(62,963)
NET DECREASE IN CASH AND BANK INDEBTEDNESS, END OF PERIOD	(13,758)
SUPPLEMENTARY INFORMATION	
Interest paid	4,231
Income taxes paid	3,000

(Columnar amounts expressed in thousands of dollars except where indicated)

1. ORGANIZATION OF TRUST

Northern Property Real Estate Investment Trust ("NPREIT") is an unincorporated "open-end" real estate investment trust created for the benefit of the unitholders pursuant to the Declaration of Trust dated January 2, 2002 under the laws of the Province of Alberta. NPREIT was created to invest directly and through the indirect acquisition of Urbco Inc. ("Urbco"), under a Plan of Arrangement, in a portfolio of income-producing residential and commercial rental properties located primarily in the Northwest Territories, Nunavut and the Province of Alberta.

On May 30, 2002, NPREIT completed the initial public offering and acquired seventy residential rental properties, nine residential properties with ancillary commercial space, and 202,060 square feet of commercial space in nine buildings (see Note 3).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

NPREIT's consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles ("GAAP").

Principles of consolidation

The consolidated financial statements include the accounts of NPREIT and its wholly-owned subsidiary, together with the Company's proportionate share of the assets, liabilities, revenue and expenses of joint ventures. Investments in significantly influenced companies are accounted for using the equity method.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses for the consolidated reported period. Actual results could differ from those estimates.

Capital assets

Rental properties are stated at the lower of cost less accumulated amortization and net recoverable amount. Cost of the properties includes the original acquisition costs of the property and other acquisition related costs. Costs associated with upgrading the existing facilities, other than ordinary repairs and maintenance, are capitalized as project improvements. The net recoverable amount represents the undiscounted, estimated future net cash flow expected to be received from the ongoing use of the property plus its residual worth and is intended to determine recovery of an investment and is not an expression of a property's fair market value.

All capital assets are recorded at cost and are amortized using the following annual rates and methods:

Buildings	30 - 40 years	sinking-fund
Furniture, fixtures and equipment	20% - 30%	declining-balance
Vehicles	20% - 30%	declining-balance
Capital and leasehold improvements	3 - 5 years	declining-balance

Estimated useful lives of capital assets are periodically evaluated by management and any changes in these estimates are accounted for on a prospective basis.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land equity leases

Prepaid land equity leases are amortized over the remaining lives of the related leases ranging from 15 to 30 years.

Deferred financing costs

Deferred financing costs are amortized on a straight-line basis over term of the related loans.

Income taxes

NPREIT is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the trustees of NPREIT will make distributions or designate all taxable income earned, including the taxable part of net realized capital gains by NPREIT, to unitholders and will deduct such distributions and designations for income tax purposes.

Income taxes are accounted for using the liability method. Under this method, future income taxes are recognized for the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse.

Future income tax liabilities of NPREIT are primarily in relation to tax and accounting base differences in corporate subsidiaries of NPREIT.

Revenue recognition

Revenue from a rental property is recognized when a tenant commences occupancy of a property and rent is due. NPREIT retains all benefits and risk of ownership of its rental properties, and therefore, accounts for leases with its tenants as operating leases. Rental revenue includes rent and other sundry revenue recoveries.

Non-GAAP measures reporting

Cash available for distribution is calculated as net earnings before amortization (except amortization of tenant improvements), payments attributed to prepaid equity land leases and future income tax expense. Readers are cautioned that cash available for distribution is not a defined measure of performance under GAAP. NPREIT's calculation of cash available for distribution may be different than similar calculations used by other comparable entities.

3. INITIAL ACQUISITION

Initial public offering

On May 30, 2002, NPREIT completed an Initial Public Offering ("IPO"). On closing, NPREIT indirectly acquired a 100% interest in Urbco. Through its interest in Urbco and direct acquisition of investment properties, NPREIT acquired 1,152 residential units and 202,060 square feet of commercial property. Subsequent to the IPO, NPREIT acquired directly nine additional properties from third parties, increasing their total residential units by 410 and commercial square footage by 47,798.

Of the net proceeds from the IPO approximately $58,758,000 were used by NPREIT to acquire the 100% interest in Urbco, ten properties from Urbco and nine properties from third parties subsequent to closing.

3. INITIAL ACQUISITION (CONTINUED)

	$
Net assets acquired:	
Initial properties acquired from Urbco	167,858
Subsequent properties acquired	38,942
Cash	5,672
Future income taxes	(12,150)
Long-term and other debt	(109,569)
Working capital	(2,745)
	88,008
Consideration	
Public issue of units (net of issue costs)	58,758
Issue of limited partnership units	23,917
Issue of units	5,333
	88,008

4. RENTAL PROPERTIES AND OTHER CAPITAL ASSETS

	Cost $	Accumulated Amortization $	Net Book Value $
Land	10,658	–	10,658
Building	240,834	1,180	239,654
Furniture, fixtures and equipment	1,119	193	926
Vehicles	125	27	98
Capital and leasehold improvements	755	53	702
	253,491	1,453	252,038

	$
Building acquisitions – subsequent to IPO (included in above totals):	
Mortgages and debt assumed	21,251
Units issued	10,000
Cash paid	14,471
Total purchase price	45,722
Residential units acquired	239

5. PREPAID EXPENSES AND OTHER ASSETS

	$
Prepaid equity leases	2,779
Deferred financing fees	574
Prepaid expenses	439
Other	381
	4,173

6. MORTGAGES PAYABLE

Mortgages payable bear interest at rates ranging from 4.75% to 13.5% (weighted average rate of 6.62% as at December 31, 2002) per annum, payable in monthly principal and interest instalments totalling $1,172,000 and maturing between 2003 and 2017. All mortgages are secured by specific charges against specific properties.

Minimum future principal payments required are as follows:

	$
2003	10,956
2004	15,841
2005	10,285
2006	15,821
2007	24,496
Subsequent	50,506
	127,905

The fair value of the mortgages at December 31, 2002 is approximately $128.7 million.

7. BANK INDEBTEDNESS

NPREIT has a revolving line of credit in the amount of $20 million for acquisition and operating purposes, bearing interest at prime plus 0.5% or bankers acceptance rate with a maturity of September 2, 2003. Specific properties have been pledged as collateral security for the line of credit.

At December 31, 2002, NPREIT has utilized $13,841,000 of its $20 million line of credit.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	$
Accrued liabilities	2,029
Security deposits and other	1,721
Trade payables	1,076
	4,826

9. INCOME TAXES

The provision for income taxes differs from the results which would be obtained by applying the combined federal and provincial income tax rate to net income before taxes. The difference results from the following:

	$
Income before future and current income taxes	6,000
Less: income attributable to NPREIT not subject to future income tax	4,578
Income in corporate subsidiaries	1,422
Income tax rate based on basic and weighted average rates	22.12%
Income tax expense from statutory income tax rate	315
Increase (decrease) in taxes resulting from:	
Large corporation tax	77
Benefit of loss carryback not recognized on acquisition	(138)
Other	13
	267
Current income tax expense	94
Future income tax expense	173
	267

The balance of future income tax liability of $12,323,000 relates to the rental properties of the corporate subsidiaries. It results from the difference in carrying value for accounting purposes versus those for tax purposes.

10. UNITHOLDERS' EQUITY

NPREIT's Unitholder's Equity is represented by two categories of unit equity: Trust Units and Class B Exchangeable Limited Partnership Units ("Class B Unit"). Each Class B Unit has a "Special Voting Unit" attached to it.

Total NPREIT Trust Units and Class B Units issued, outstanding and eligible for distribution at December 31, 2002 is 10,787,522, representing a value of $101,770,000 (net of issue costs of $7,477,000).

The number of units issued and outstanding are as follows:

Trust units

On May 30, 2002, NPREIT completed its initial public offering of 6,600,000 units at $10 to raise gross proceeds of $66,000,000. On closing, NPREIT acquired nine properties and 100% of the shares in Urbco, resulting in the issuance of Class B Units (see below) and an additional 533,268 NPREIT units valued at $10 per unit. Issue costs associated with this transaction were $7,237,000, resulting in net proceeds of $58,763,000.

10. UNITHOLDERS' EQUITY (CONTINUED)

On June 14, 2002, NPREIT issued 400,000 NPREIT units for gross proceeds of $4,000,000 pursuant to the over-allotment option in the IPO. Proceeds from this transaction were $3,760,000, net of issue costs of $240,000.

Total number of units outstanding at December 31, 2002 is 7,545,923 representing a net book value of $67,855,680, net of issue costs.

Class B Exchangeable Limited Partnership Units and Special Voting Units

As noted above, under the Plan of Arrangement, NPREIT issued 2,391,441 Class B Units valued at $10 per unit to acquire the nine properties and the shares of Urbco Inc. The Class B Units are classified as equity instruments of NPREIT and are substantially equal to NPREIT units on an economic basis.

On November 1, 2002, NPREIT issued 862,813 Class B units as part consideration for the acquisition of 26 properties located in Iqaluit, Nunavut. The value assigned to these units was $10,000,000 or $11.59 per unit, representing the closing unit price on September 4, 2002, the agreement date of the acquisition.

As at December 31, 2002, NPREIT has 3,241,599 Class B Units of a controlled limited partnership outstanding representing a value of $33,914,410. The Class B Limited Partnership units may be exchanged, at the holder's option, on a one-for-one basis into units of NPREIT. Prior to such exchange, distributions will be made on the exchangeable units in an amount equivalent to the distributions which would have been made had the units of NPREIT been issued.

Upon issuance of the Class B exchangeable partnership units, Special Voting Units were also issued to the holders of Class B Units on a one-for-one basis. There is no value assigned to the Special Voting Units, however, each Special Voting Unit entitles the Class B unitholders to equal voting rights to the unitholders.

During the period, 12,655 Class B Units were exchanged into NPREIT units.

11. INCOME AVAILABLE FOR DISTRIBUTION AND PER UNIT INFORMATION

Distributable income per unit

	$
Net income	**5,733**
Add back:	
Amortization expense	**1,453**
Future income taxes	**173**
Long-term incentive plan	**210**
Distributable income	**7,569**
Distributions paid to unitholders	**6,883**
Weighted average units outstanding – basic and diluted	**10,158,093**
Basic and diluted distributable income per unit	**0.75**

NPREIT makes distributions to unitholders on a monthly basis on or about the 15th day of the following month.

11. INCOME AVAILABLE FOR DISTRIBUTION AND PER UNIT INFORMATION (CONTINUED)

Distributable income per unit (continued)

The weighted average units outstanding for the purposes of calculating distributable income includes the 17,497 NPREIT units granted but not issued under the long-term incentive plan. The units granted have been utilized in the calculation as the full amount of the compensation amount has been added back in determining distributable income.

Distributions per unit

For the period ended December 31, 2002, NPREIT made distributions to unitholders as follows:

Month	Record date	Payment date	Distribution per unit
May	June 30	July 15	0.0063
June	June 30	July 15	0.0958
July	July 31	August 15	0.0958
August	August 31	September 15	0.0958
September	September 30	October 15	0.0958
October	October 31	November 15	0.0958
November	November 30	December 15	0.0958
December	December 31	January 15	0.0958
Total distributions paid			0.6769

Earnings per unit

	$
Net earnings	**5,733**
Weighted average units for basic earnings per unit	**10,140,596**
Effect of dilutive units to be issued in respect of the long-term incentive plan	**81**
Weighted average units for diluted earnings per unit	**10,140,677**
Basic earnings per unit	**0.57**
Diluted earnings per unit	**0.57**

12. COMMITMENTS AND CONTINGENCIES

A development and services agreement exists between NPREIT and NewNorth Projects Ltd. ("Newnorth"). The agreement grants NPREIT the option to purchase any of NewNorth's development properties following completion at a price equal to 100% of the appraised fair market value. NPREIT will also have the right to offer to make mezzanine loans for 100% of the projected equity component of all development projects to assist NewNorth with development activities. Additionally, NPREIT, through its 100% interest in Northern Property Limited Partnership, will provide the services of management to NewNorth pursuant to the development and services agreement.

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

During the period, a mezzanine loan, classified as a loan receivable, in the amount of $2.5 million was made to NewNorth for the development of properties that will subsequently be sold to NPREIT (see Note 15). The amount bears an interest rate of 11%, payable on transfer of the asset and is secured by the underlying asset.

13. FINANCIAL INSTRUMENTS

Financial instruments include loan receivable, prepaid expenses and other assets, accounts receivable, tenant security deposits, mortgages payable, accounts payable and accrued liabilities, long-term incentive plan obligation, income taxes payable and bank indebtedness. Unless otherwise specified (see Note 6), the fair value of these instruments approximate their carrying values.

Interest rate risk

Interest rate risk is minimized through management's strategy of ensuring that the substantial portion of its mortgage portfolio is in fixed terms arrangements.

14. LONG-TERM INCENTIVE PLAN

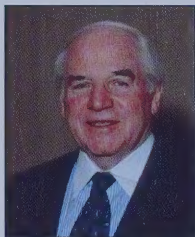
The Board of Directors approved a long-term incentive plan ("LTIP") for the executives of NPREIT, based on the results of the current fiscal year. Under the LTIP plan, executives are awarded bonuses based on meeting certain predetermined criteria. The bonus amount is accrued in the year in which it relates and will be settled through the issuance of NPREIT units, provided that the individual remains employed by NPREIT. The units will be issued over a 12 to 36 month period with one-third of the units issued every 12 months beginning December 31, 2003. At December 31, 2002, 17,497 units were granted. The amount included in compensation expense for the period related to the LTIP plan was $209,800. The LTIP will be presented to the Unitholders for approval at the Annual and Special General Meeting.

15. SUBSEQUENT EVENTS

Subsequent to December 31, 2002, NPREIT acquired 19 residential units and 12,957 square feet of commercial space located in Yellowknife from a third party for an aggregated purchase price of $3.4 million. The acquisition was financed through cash of $500,000, the assumption of debt of $1.7 million and the issuance of Limited Partnership units valued at $1.2 million. The acquisition closed on January 2nd, 2003.

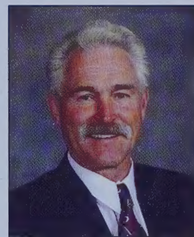
On March 1, 2003, NPREIT completed the acquisition of 30 residential units in Nunavut (10 each in Pond Inlet, Cape Dorset and Pangnirtung) for a purchase price of $6.6 million. The acquisition was financed through cash of $2.2 million, the assumption of debt of $1.8 million and settlement of the mezzanine facility of $2.6 million (including accrued interest). The properties were acquired from Auyuittuq Building Services, a wholly-owned subsidiary of NewNorth, through the exercise of the option available through the Development and Services Agreement as described in Note 12.

TRUSTEES



Douglas Mitchell, Q.C.
Chair of the Trust

B. James Britton
President, CEO and Trustee



C. Donald Wilson
Trustee

Dennis Patterson
Trustee

Donald G. Reid
Trustee

Kenn Harper
Trustee

John C. Charles
Trustee

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President and Chief Executive Officer

Kenn Harper
Vice President of Nunavut Operations

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Valiant Trust Company
Computershare Trust Company of Canada

Design and production by Melnyk Cary & Associates Ltd. Printed in Canada by Emerson Clarke Printing Corporation

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